

USAID/Egypt

Annual Report

FY 2004

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Please Note:

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Egypt

Performance:

Egypt, a strong moderating force in the Middle East, has long been an important U.S. ally. Egypt and the U.S. share strategic interests that include the achievement of stability and peace in the region, and this continuing bilateral relationship serves the national security interests of both countries. It promotes prosperity in Egypt by assisting the country's ongoing, but incomplete, transition from an economy controlled by the state to a free market-oriented one. Nonetheless Egypt's development challenges are considerable.

Egypt has the largest population and the second largest economy (after Saudi Arabia) in the Arab World. Egypt's population stood at 69.21 million in February 2002, according to the latest census. The population is expected to reach 123 million by the year 2029. Reducing the population growth rate is a major challenge for the government. More than 42% of women are illiterate compared with about 18% of men, and the overall illiteracy rate is 30%. The workforce reached 20m in 2002, up by 2.6% on 2001. Unemployment remains an acute problem. Official numbers have shown a steady rise in unemployment, from a low of 7.9% in 1999/2000 to 9.5% in January 2003. Most independent estimates put the unemployment rate much higher at around 25%. Moreover unemployment among recent graduates is generally considered to be even higher, at almost 40% for men and 50% for women.

The government's decision in January 2003 to adopt a more flexible exchange rate regime ended two years of tinkering with a crawling peg system. The pound has depreciated around 25% against the dollar since then, and even further against the Euro. Foreign exchange availability, although improved, remains constrained and the illegal parallel market persists, although with a much-reduced premium over the legal rate. The establishment of a surrender requirement for all foreign exchange generating transactions has had limited success in improving dollar inflows to the banking system.

The devaluation associated with the transition to the free exchange rate system contributed to a large increase in wholesale price inflation in 2003. In September the chairman of the state statistical agency, CAPMAS, stated that as a result of the float of the Egyptian Pound, the prices of basic foodstuffs had risen by 40% since January 2003. Governmental price controls and subsidies limited the impact on much of the population, but contributed to a large increase in Egypt's already substantial budget deficit. An increase in government expenditures of over 10% annually, combined with revenues that remain well below targets, pushed the budget deficit towards worrying levels.

Egypt's parliament, the People's Assembly (PA), approved several key pieces of economic legislation in 2003, including the Telecom Regulatory Authority law in February 2003 and the Unified Labor Law and Unified Banking Law in May 2003. It also ratified the Association Agreement with the European Union signed in 2001. Draft laws likely to come up for consideration during the current session cover Small and Medium Enterprises, Capital Markets, Customs, and possibly Sales Tax revisions.

Challenges: Performance across economic sectors has been uneven in the past three years. The tourism industry rebounded strongly from the downturn brought about by the war in Iraq. Agriculture has grown steadily but modestly, at around 3-4% a year, keeping Egypt a large scale food importer. In recent years growth in industry and mining has been constrained by the heavy public sector debt burden, low productivity and generally weak demand. Sectors such as transport, communications and electricity are being opened up to private investment. Over the longer term, the GOE's main policy challenge will be to restore confidence in its management of the currency and to reduce the budget deficit and domestic debt. Reform of the economy will remain a gradual affair. Privatization and trade liberalization will proceed, but only slowly, as concerns over the social and employment implications remain uppermost in the GOE's

mind.

U.S. Interests and Goals: The U.S. seeks a strong bilateral relationship with Egypt to form an effective partnership to combat terrorism, resolve regional conflicts and promote regional peace, ensure regional security, and promote economic development.

Donor Relations: Key, common areas of interest among bilateral and multilateral donors are: the need for a comprehensive action program to fight poverty, improve educational and health services, with special emphasis on women and children; and the need to further reform the macroeconomic and enabling environment. The U.S. and European Union are the largest providers of foreign assistance to Egypt. Other major donors, in descending order of resource levels include Japan, Germany, the Arab Fund, Islamic Development Bank, and the African Development Bank. USAID collaborates with other donors on all technical areas under its strategic program, through regular donor subgroup meetings or other venue.

Key achievements: Overall the USAID program in Egypt has met its goals in 2003. The GOE is more determined than in the recent past to undertake policy reform and address difficult social and demographic challenges.

1. **Environment for Trade and Investment Strengthened:** USAID activities strengthen the environment for development-enabling and job-creating trade and investment. USAID provides Egyptian partners with training, technical assistance, commodities and cash transfer resources disbursed in return for Government of Egypt reforms in economic policies. In FY 2003 the Corporate Tax activity worked with firms to meet their demands for a more streamlined tax system resulting in better relations with corporate taxpayers and a more optimal use of resources by the GOE. Producers and exporters of high-value processed food and horticultural products benefited in particular from technical assistance and training, thus increasing their contribution to the economy, as evidenced by a 30% gain in the value of their exports since 1998 (7% last year alone). During FY03, Egyptian banks provided CIP financing to 249 Egyptian private businesses (employing more than 86 thousand workers) for equipment and materials valued at \$152 million, creating or maintaining jobs at a time when the economy was essentially stagnant. As of September 2003, USAID-assisted SME institutions (two banks and six business associations) had 214 thousand active business borrowers and an outstanding loan portfolio of about \$50 million.

2. **Skills for Competitiveness Developed:** this SO cooperates with the Egyptian Private sector to build a cadre of trained personnel to better meet the needs of institutions in a globally competitive economy. In FY 2003, 6,349 Egyptian hotel workers have acquired skills using the Master Trainer approach of training hotel supervisors, who in turn, train their line-level workers. A survey of hotels in Luxor, Cairo, and Sharm El Sheikh indicated that the training improved skills and led to improved customer satisfaction and increased competitiveness of these hotels and the Egyptian tourism sector.

Certified IT training has created employment opportunities for the trainees. Surveys show that 65% of unemployed trainees are employed as a result of the training within a year of receiving the certification. In FY 03, 459 school teachers were trained in Basic IT Skills and IT Integration and 102 school administrators were trained in Management Skills for School Administrators. These techniques, together with use of computer equipment and appropriate software, are aligned with other Egyptian initiatives for improving school effectiveness.

3. **Access to Sustainable Utility Services in Selected Areas Increased:** Under this SO, USAID provides reliable and sustainable power, telecommunications, and water and wastewater services. Telecom and power sector construction activities are in their final stages, and the regulatory agencies for both sectors are becoming operational. The Ministry of Housing, Utilities, and Urban Communities (MHUUC) drafted two decrees to corporatize the water and wastewater sector and create a water regulatory agency, two key moves that will give water and wastewater utilities greater freedom to charge higher water tariffs, operate more commercially, and enter into private sector participation (PSP) deals.

4. **Improved Management of the Environment and Natural Resources in Targeted Sectors:** The

preservation of Egypt's environment and natural resource base, in particular water, air and coastal ecological areas, is the focus of this SO. In 2003 lead smelters previously located in northern Cairo were relocated by the GOE, with USAID's technical support, to the new industrial area of Abou Zaabal outside the city and are now operational using state-of-the-art clean technology. The privatization of Solid Waste Management (SWM) in the governorate of Alexandria in 2000 led to improved quality of life for 4.5 million residents of the city. During FY 03 three additional governorates (Giza, Gharbiya and Damietta) privatized their SWM services.

5. Health and Population: The 2003 Demographic and Health Survey (DHS) documented the impressive decline in infant mortality from 44 to 38 per 1000 births (exceeding the 2003 target) and the under five mortality from 54 to 46 between 2000 and 2003. Use of modern family planning methods increased from 54% to 57% (meeting the 2003 target). Young families with two or fewer children also increased their use of contraceptive methods, from 44% to 47% (exceeding the 2003 target). Birth spacing of 36 or more months, contributing to decreased maternal, infant and child mortality rates, increased from 46% to 49%. Most significantly, total fertility declined nationally from 3.5 to 3.2 (exceeding the 2003 target).

The national disease surveillance and response system in Egypt continues to improve as demonstrated by its recent work to contain a deadly outbreak of Rift Valley Fever. USAID made significant contributions to the expansion and strengthening of this system this year by supporting establishment of another 60 disease control units in four governorates. In over 50% of the country, some 158 disease control units are now on-line monitoring diseases and outcomes.

6. Democracy and Governance: : USAID's pilot project in the Courts of First Instance in Ismailia and North Cairo (Egypt's largest jurisdiction) has improved lawyers' confidence in the justice system, expanded the dissemination of judicial decisions, and modernized the filing and tracking of cases. Computerizing case initiation and the random assignment of judges and court dates has reduced opportunities for corruption, resulting in greater transparency in the delivery of justice. A combination of training, technical assistance, grants and networking opportunities improved NGO capacity and the effective application of this capacity to affect change. Last year, NGO representatives benefited from more than 1,300 training and technical assistance opportunities on matters of internal governance, advocacy, mentoring, financial management, networking, constituency-building and media relations. NGOs demonstrated their greater capacity by carrying out more than 90 civic actions in the public sphere (such as advocacy campaigns for reforms to address and advance the interests of their constituencies), confronting a wide range of issues including women's civil rights, women's access to elected office, children rights and reducing child labor, the legal framework for small and micro enterprises, and environmental protection.

7. Basic Education: USAID's basic education activities achieved important results in FY2003. The success of the Alexandria Reform Pilot prompted the Minister of Education to request that the Education Reform Program be extended beyond the planned three governorates to a total of seven: Alexandria, Cairo, Beni Suef, Fayoum, Minya, Qena, and Aswan. In FY2003, more than 83,000 girls and women received basic education from USAID-funded education programs, and over 4,000 teachers were trained to use modern and learner centered teaching methods. During FY2003, USAID activities helped equip nearly 10,000 teachers, supervisors and administrators with improved teaching and classroom management skills. Working nationally through 27 Faculties of Education (teacher training colleges) and the Ministry of Education, as well as locally with individual districts and schools, USAID/Egypt training activities promoted child-centered teaching methodologies, improved English language teaching skills and introduced new management and assessment techniques.

Country Close and Graduation:

Results Framework

263-010 Increased Use of Information Services by the Legislature in Decision-Making

263-012 Approaches to Sustainable Tourism Developed

263-016 Environment for Trade and Investment Strengthened

SO Level Indicator(s):

Index of Economic Freedom, The Fraser Institute. On a basis of zero to ten; higher scores are indicative of greater economic freedom

IR16.1 Policy Framework for Trade and Investment Improved

IR16.2 Private Sector Competitiveness Increased

IR16.3 Opportunities for Business Growth Enhanced

263-017 Skills for Competitiveness Developed

IR.17.2 Market Responsive IT Skills developed

263-018 Access to Sustainable Utility Service in Selected Areas Increased

SO Level Indicator(s):

Cumulative number of people with new or improved water or wastewater service in selected areas (millions)

Cumulative number of people with new telecommunications services

Percent of operation and maintenance costs covered by collected revenue in the water & wastewater sector

Percent of operation and maintenance costs covered by revenue in the power sector

Percent of operation and maintenance costs covered by revenue in the telecommunications sector

IR 18.2 Commercialization of Utilities Enhanced

IR.18.1 Utility Services Enhanced

IR.18.2 Legal and Regulatory Framework for the Municipal Water , Power and Telecommunications Sectors Established

263-019 Improved Management of the Environment and Natural Resources in Targeted Sectors

SO Level Indicator(s):

Percentage of tourism facilities in the Red Sea Region which have received approval through the Environmental Impact Assessment process prior to commencement of construction

Real Value of aggregate agricultural production per 1000 cubic meters of Nile water used in agriculture.

Total volume (1000GGE)of compressed natural gas (CNG)sold per year for transportation

IR19.1 Foster Public-Private Partnerships

IR19.2 Increased Investment in ENR Practices and Technologies

263-020 Healthier, Planned Families

SO Level Indicator(s):

Infant Mortality Rate

Total Fertility Rate

IR 20.1 Improved Family Planning & Reproductive Health

IR 20.2 Improved Maternal & Child Health

IR 20.3 Improved Surveillance and Response to Infectious Disease

263-021 Egyptian Initiatives in Governance and Participation Strengthened

SO Level Indicator(s):

Examples of expansion, consolidation or adaptation of best practices in governance, participation and administration of justice introduced through the cooperation of USAID and its Egyptian partners

IR.21.1 Capacity of Civil Society Organizations Improved to Participate in Development

IR.21.2 Stakeholder Collaboration Increased for Community Level Services

IR.21.3 Improvements in Selected Areas of Administration of Justice

263-022 Basic Education Improved to Meet Market Demands

SO Level Indicator(s):

Percentage of learners ages 11-15, enrolled in preparatory school in Rural, Upper Egypt

Percentage of learners over age 15, enrolled in education in Rural, Upper Egypt

IR 22.1 Quality Basic Education Programs Demonstrated (Emphasizing Girls)

IR 22.2 Increased Availability and Accessibility of Schooling

IR 22.3 Systems that provide Sustainable Quality Teacher Training Supported